

Physical Inventory. The FAR outcome of physical inventory involves to ensuring that quantities on hand are known and recorded. Generally, few contracts contain terms and conditions for frequency of physical inventories or inventory accuracy. In such cases, the contractor should document within its property management procedure the physical inventory frequency and levels of accuracy it seeks to achieve.

FAR 52.245-1 requires contractors to perform periodic physical inventories and upon contract completion or termination. [Note: this requirement does not extend to material released to the shop floor as work in process]. Depending on the circumstances, requiring the contractor to perform a separate, complete physical inventory of the Government property accountable to the contract being closed out may not be necessary. For example, if within the past few month the contractor has completed a physical inventory of all property in its possession in accordance with its regular physical inventory cycle, this inventory may satisfy the requirements of this paragraph.

FAR 52.245-1 (f)(iv) grants the Property Administrator (PA) with sufficient authority to waive/exempt contractors with adequate systems from performing an additional physical inventory at contract closeout.

To test for compliance, the PA shall ensure the contractor periodically performs, records, and discloses physical inventories results. The PA shall also ensure the contractor:

- Performs required physical inventories commensurate with the kinds of property in its possession.
- Does not allow those who maintain the records, or are responsible for the custody of the property to perform the physical inventories.
- Performs physical inventories promptly upon contract completion or termination, unless waived by the PA.
- Locates and counts property, compares the results of the physical inventories to property management records, properly records losses and adjustments to the property management records, and discloses overall results.